



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Report on Internal Control and Compliance

Maricopa County Community College District

Year Ended June 30, 2011



Debra K. Davenport
Auditor General

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Maricopa County Community College District
Report on Internal Control and Compliance
Year Ended June 30, 2011

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Report Issued Separately

Comprehensive Annual Financial Report



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Basic Financial
Statements Performed in Accordance with *Government Auditing Standards***

Members of the Arizona State Legislature

The Governing Board of
Maricopa County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Maricopa County Community College District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 21, 2011. Our report was modified to include a reference to our reliance on other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Maricopa County Community College District Foundation, the discretely presented component unit, as described in our report on the District's financial statements. The financial statements of the Maricopa County Community College District Foundation were not audited by the other auditors in accordance with *Government Auditing Standards*. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the report of the other auditors.

Internal Control over Financial Reporting

The District's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 11-01 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 11-02 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Maricopa County Community College District's responses to the findings identified in our audit are presented on pages 5 through 7. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Governing Board, management, others within the District, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Jay Zsorey, CPA
Financial Audit Director

November 21, 2011

Maricopa County Community College District
Schedule of Findings and Recommendations
Year Ended June 30, 2011

Financial Statement Findings

11-01

The District should continue to strengthen computer access and change controls

Criteria: Effective system access controls help prevent and detect unauthorized use, damage, loss, or modification of programs and data, and misuse of sensitive or confidential information. Further, effective change controls should ensure that program changes and data changes are valid, meet user needs, are reviewed and approved independently, and are implemented accurately.

Condition and context: The District uses three main computerized systems to initiate, record, process, and report financial (CFS), human resources and payroll (HRMS), and student information (SIS). However, during fiscal year 2011, the District had not adequately implemented policies and procedures for granting access and making changes to its computer systems. Specifically, auditors noted the following deficiencies:

Access Controls

- Documentation of supervisory approval of access granted to its HRMS and SIS computer systems was not maintained for 3 of 5 HRMS users tested and 2 of 5 SIS users tested.
- Users' access rights were not always revoked after termination. For example, auditors noted 37 users within the District's systems whose access was not revoked in a timely manner. Furthermore, several terminated employees remained active systems users more than 8 months after termination.
- System activity was not monitored for those employees who had administrative and superuser access roles that granted them heightened user privileges. Auditors noted 17 CFS users, 13 HRMS users, and 18 SIS users who had administrative or superuser roles.

Change Controls

- Database administrators, development managers, and programmers had the ability to approve system changes and implement them.
- Several employees were granted the authority to make changes within the systems without proper monitoring of those changes. Auditors noted 5 CFS users, 13 HRMS users, and 4 SIS users who had the ability to make unauthorized changes to the District's systems.

Effect: Inadequate controls could lead to an increased risk of theft, manipulation, misuse of sensitive or confidential information by unauthorized users, or unauthorized changes or changes that were not made accurately. This finding is a material weakness in internal control over financial reporting.

Cause: During the fiscal year, the District updated its policies over access and change management controls to address deficiencies noted in the prior year's audit. However, not all of these policies were implemented during the fiscal year, and the policies did not address all deficiencies noted in the prior years.

Maricopa County Community College District
Schedule of Findings and Recommendations
Year Ended June 30, 2011

Recommendation: The District should implement its policies and procedures over granting and revoking system access by using the standard form developed. This form should document supervisory approval and should be retained. In addition, after an employee terminates, system access should be revoked in a timely manner. Further, the District should develop policies and procedures to require independent reviews of its administrative users' and superusers' activities on the systems and document these reviews.

In addition, the District should develop procedures for monitoring changes made to its systems. These procedures should include having an employee independent of the process reconcile the approved changes to actual system changes made. Also, activity of users who can make changes outside of the formal change management process should be monitored.

This finding is similar to a prior-year finding.

11-02

The District should improve controls over scholarship allowances

Criteria: Governmental Accounting Standards Board Statement No. 35 requires public colleges to report revenues net of discounts and allowances. Further, the District's policies state that only amounts received from students or third parties to satisfy tuition and fees will be recognized as tuition and fee revenue. Pell grants and scholarships, both internal and external, will be recorded as scholarship allowances.

Condition and context: The District used a report from its Student Information System (SIS) to determine the scholarship allowance amount; however, this report was not accurate. Auditors noted errors for 17 of 40 allowance amounts tested. Specifically, 6 of the errors were caused by certain tuition and fees not being properly included or excluded. The additional 11 errors were related to certain financial awards that were not included.

Effect: Scholarship allowances were understated by \$11.7 million, resulting in tuition and fees revenues and corresponding expenses being overstated by \$11.7 million. However, the District properly adjusted its financial statements to correct the error. This finding is a significant deficiency in internal control over financial reporting.

Cause: The District's report contained incorrect data because of a change in the underlying structure of the database used to create the report. Finance staff were unaware of the change and performed a high-level review instead of a detailed review of the results. Further, adequate training was not provided to finance staff, and therefore, not all tuition and fees or financial awards were classified properly within SIS.

Recommendation: The District should update its policies and procedures over scholarship allowances to include a detailed review of how the report was prepared from the SIS to help ensure it is accurate. Further, finance staff should be trained on how to classify tuition and fees or financial awards within the system to ensure scholarship allowances are properly calculated.



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December 16, 2011

Ms. Debbie Davenport
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying corrective action plan has been prepared as required by Government Auditing Standards. Specifically, we are providing you with the names of the contact people responsible for the corrective action, the corrective action planned, and the anticipated completion date for the audit finding included in the Schedule of Findings and Recommendations for the fiscal year ended June 30, 2011.

Sincerely,

Kimberly Brainard Granio, CPA
Director, Financial Services and Controller

MARICOPA COUNTY COMMUNITY COLLEGE DISTRICT
Corrective Action Plan
Year Ended June 30, 2011

Financial Statement Findings

11-01

The District should continue to strengthen computer access and change controls

Contact person: Earl Monsour

Anticipated completion date: February 2012

Corrective Action Planned:

The District agrees with the findings and will address the issues identified. A standardized form will be used and maintained for all access to our systems. Procedures will be reviewed to verify that access is removed from our systems upon an employee termination. The District will develop policies and procedures to conduct independent reviews of all administrative users' and super users' activities and will document these reviews. The District has developed procedures to monitor changes made to our systems by an employee independent of the process and these reviews will be conducted on a regular basis.

11-02

The District should improve controls over scholarship allowances

Contact person: Kim Granio

Completion date: December 2011

Corrective Action Planned:

The District agrees with the findings and recommendations. The District has updated its written business procedures to address the issues identified in this finding. Staff have been provided with training on how to code item types so that tuition, fees, and financial aid awards in the Student Information System (SIS) are properly classified for the calculation of Student Discounts & Allowances (SD&A). In addition, a detailed review of all existing item types was performed when the error was discovered and appropriate corrections were entered. Each year, a detailed review of all new and existing item types will be performed before the SD&A is calculated to ensure that item types have been coded correctly for the SD&A calculation.

The report created to prepare the SD&A calculation was originally programmed to run against the Reporting Data Services (RDS) database. This database is not updated annually to include the most current information on reporting requirements for the SD&A. After the audit test work revealed this oversight, the report was redirected to run against the SIS production database, using the most current and complete SIS data available to ensure that accurate calculations will always be produced in the future. Finally, no changes can be made to the existing report programming without authorization from Business Services.

